

## NOTE 15 – OTHER LONG-TERM OBLIGATIONS

### Primary Government

#### Other Long-Term Obligations

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until claims, judgments, or amounts owed are “due and payable” at September 30. Expenses and liabilities for material claims and judgment losses are recorded in the government-wide and proprietary fund financial statements when the loss is considered probable.

#### Capital Leases

This liability is described in more detail in Note 12.

#### Compensated Absences

This liability is described in more detail in Note 1.

#### Workers’ Compensation

The gross amount of workers’ compensation liability, \$166.0 million at September 30, 2008, has been recorded at its discounted present value of \$111.5 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is \$24.8 million. In fiscal year 2008, State agencies paid reimbursement for actual workers’ compensation claims and administrative fees totaling \$39.6 million.

#### Net Pension Obligation

This liability is described in more detail in Note 10.

#### Net Other Postemployment Benefits (OPEB) Obligation

This liability is described in more detail in Note 11.

#### Other Claims & Judgments

The governmental activities estimated liability for other claims and litigation losses, \$417.0 million at September 30, 2008, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims, natural resources and environmental quality claims, and other claims, in which it is considered probable that costs will be incurred. Also included is an estimated liability totaling \$1.4 million for arbitrage payable to the federal government for interest earned on bond proceeds. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability recorded for other claims and judgments within business-type activities represents overpayments by employers to the Michigan Unemployment Compensation Fund totaling \$55.2 million.

#### Durant Settlement

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totaled \$230.6 million at September 30, 2008. This amount will, over time, be paid to each “non-Durant” school district for its underfunded State mandated program costs if certain requirements are met. See Note 24 for additional disclosure regarding the Durant case and other contingencies.

#### Federal Advances

During fiscal year 2008, the Michigan Unemployment Compensation Funds obtained repayable federal advances in the amount of \$1.1 billion from the U.S. Department of Labor in accordance with provisions of Section 1201 of the Social Security Act (also referred to as Title XII Advances). Federal advances of \$362.4 million were outstanding at September 30, 2008.

#### Changes in Other Long-Term Obligations

Changes in long-term liabilities for the year ended September 30, 2008, are summarized as follows (in millions):

Governmental Activities	Beginning Balance (Restated)**	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Other Long-term Obligations:						
Capital lease obligations:						
Component units	\$ -	\$ 85.0	\$ 2.1	\$ 82.9	\$ 3.7	\$ 79.2
Others	247.9	31.0	41.3	237.6	18.9	218.7

**Michigan**  
**Notes to the Financial Statements**

Compensated absences	501.4	346.7	352.6	495.4	341.9	153.5
Workers' compensation	112.9	23.7	25.1	111.5	24.8	86.7
Net pension obligations	587.7	-	50.4	537.4	-	537.4
Net OPEB obligations	-	609.5	-	609.5	-	609.5
Other claims & judgments	426.5	137.8	147.3	417.0	210.6	206.3
Durant settlement	251.9	10.4	31.7	230.6	38.8	191.8
Total Governmental Activities	<u>\$ 2,128.4</u>	<u>\$ 1,244.1</u>	<u>\$ 650.6</u>	<u>\$ 2,721.9</u>	<u>\$ 638.8</u>	<u>\$ 2,083.1</u>

**Business-type Activities**

Other Long-term Obligations:

Advances from Federal government	\$ -	\$ 362.4	\$ -	\$ 362.4	\$ -	\$ 362.4
Lottery prize awards*	341.0	21.4	76.0	286.4	66.4	220.0
Compensated absences	3.2	1.4	1.3	3.3	1.0	2.3
Other claims & judgments	47.3	8.2	-	55.5	-	55.5
Total Business-type Activities	<u>\$ 391.6</u>	<u>\$ 393.3</u>	<u>\$ 77.2</u>	<u>\$ 707.6</u>	<u>\$ 67.4</u>	<u>\$ 640.3</u>

\*The amounts due within one year are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

\*\*Beginning balance has been restated. More detailed information can be found in Note 4.

The General Fund, special revenue, and internal service funds in which the leases are recorded will liquidate the capital lease obligations. The compensated absence and workers' compensation liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations and net OPEB obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The School Aid Fund will liquidate the Durant settlement. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and transportation related special revenue funds.

**Discretely Presented Component Units**

**Michigan Education Trust**

Michigan Education Trust (MET) offers contracts, which for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur. The statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound. Liabilities have been recorded on the statement of net assets for the actuarial present value of future tuition benefit obligations.

The 1988, 1989, and 1990 enrollments are known as Plans B and C. Enrollments after November 1995 are known as Plan D.

The actuarial report on the status of MET Plans B and C, as of September 30, 2008, shows the actuarial present value of future tuition obligations to be \$337.6 million, as compared to the actuarially determined market value of assets available of \$366.0 million. The actuarial assumptions used include: a projected tuition increase rate of 7.3% for all future years; and a discount rate of 4.75%.

The actuarial report on the status of MET Plan D, as of September 30, 2008, shows the actuarial present value of future tuition obligations to be \$685.0 million, as compared to the actuarially determined market value of assets available of \$559.1 million. The actuarial assumptions used include: a projected tuition increase rate of 7.3% for all future years; and a discount rate of 7.5%.

During 2000, MET changed the balance sheet presentation of the tuition benefit obligation by increasing the liability to include the present value of future contract payments expected to be collected from installment contract purchasers. There was no effect on net income or retained earnings as a result of the reclassification.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan and, thus, the investment income realized by MET is not currently subject to federal income tax. On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified State tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of qualified higher education expenses (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.